



Wednesday, 28 May 2025

KBC Sunrise Market Commentary

Dear reader,

There will be no KBC Sunrise on Thursday, May 29 and Friday, May 30. We resume the publication on Monday, June 2.

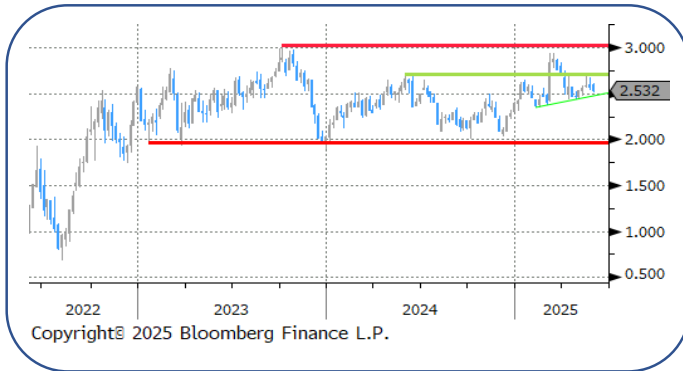
Markets

- US investors were in a good mood** as they returned from the long Memorial Day weekend. US Treasury Secretary Bessent floated the prospect of some big (Asian) trade deals in coming weeks, while the original July 9 deadline is back in play for US-EU negotiations. **An unexpectedly strong surge in May consumer confidence** helped lifting spirits. The headline index rebounded from 85.7 to 98, the best level since February. Especially the expectations index (72.8 from 55.4) contributed to the leap higher. Consumers cited the temporary reduction in China tariffs, lower gas price and easing inflation while fewer of them now see a recession this year. Average inflation expectations 12 months ahead eased from 7% to 6.5%. US stock markets rallied 1.8% (Dow) to 2.5% (Nasdaq) into the close. **Tonight's Q1 Nvidia earnings have the potential to unlock the final part of a full retracement of this year's losses back to YTD/all-time highs.** The market relief helped **some short term rebound action at the very long end of the curve.** The US curve bull flattened with yields 1.1 bp (2-yr) to 8.6 bps (30-yr) lower on the day. There was similar outperformance at the very long end in Japan and the UK earlier on the day. The Japan's ministry of finance sent a questionnaire to an unusual wide group of market participants and at an unusual time regarding the appropriate issuance amounts for government bonds. This is taken as a sign of the government seeking to stabilize the recent rout in Japanese bonds. In the UK, the debt management office indicated that it is shifting to shorter-term borrowing. In FX space, **the dollar was granted some breathing room near YTD lows** with the trade weighted greenback moving from 99 towards 100. EUR/USD copied the, technically insignificant, move from 1.14 to 1.13.
- The correction lower in very long Japanese government bond yields is already running into trouble this morning after **an auction of 40-yr government bonds met with weak demand.** It highlight the fragility of any such moves with worries on public finances resulting in a sell-the-uptick pattern for now. Today's eco calendar contains ECB inflation expectations (1y, 3y), the Richmond Fed manufacturing index and minutes of the previous FOMC meeting. We don't expect them to move markets in a profound way. Later this week (Friday), US PCE deflators, Japanese (Tokyo) CPI and German consumer prices are worth watching.

News & Views

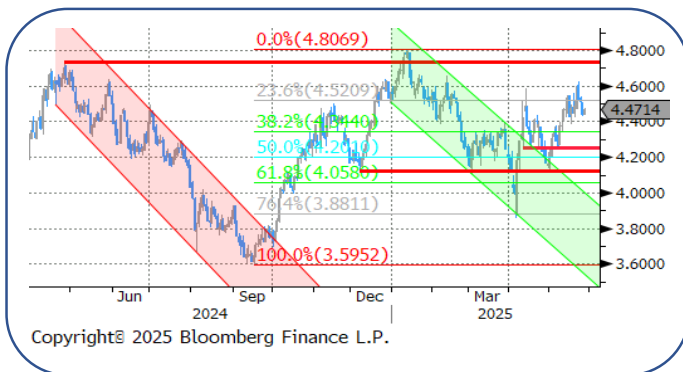
- Hungary's central bank (MNB) kept the policy rate unchanged at 6.5% yesterday.** It remains highly focused on inflation. Price rises in April slowed to 4.2% (headline) and 5% (core), depending on the gauge, but underlying dynamics are worrying. Government profit caps artificially suppressed food prices and market services' monthly repricing was well above average. That points to **higher inflation throughout the year. Risks surrounding the inflation outlook are substantial** and therefore continue to warrant a careful and gradual approach to monetary policy. Hungarian swap yields rose a few basis points but that move was unrelated to the policy decision. The forint closed more or less unchanged around EUR/HUF 403.7.
- The Reserve Bank of New Zealand went ahead with its easing cycle, lowering the key rate from 3.5% to 3.25%.** Chief economist Conway said they now **entered the neutral zone in a sign of the cycle nearing its end.** The May policy report indicates **one more rate cut with the chance of another.** The decision was not a unanimous, with **one member arguing for a hold with** increased inflation expectations as one of the reasons. Inflation is projected to rise to 2.7% in 2025Q3 before returning near 2% from 2026. Previous rate cuts as well as elevated export prices should support the economy, even as increased global tariffs are expected to slow global economic growth. The economy should expand by 1.5% in the year through March 2026, compared to the 1.8% projected in February. The kiwi dollar didn't hold on to kneejerk gains (NZD/USD 0.595). **Swap yields do rise up to 11 bps at the front end of the curve.**

Graphs



GE 10y yield

Confidence that inflation is returning to 2% **allowed the ECB to reduce to policy rate to 2.25% in April, reaching neutral territory**. The ECB now moves to an outright data-dependent approach, but overall uncertainty remains elevated. **German bunds ever more gain safe haven status** as uncertainty with respect to US assets intensifies. This slowed the rise in LT yields when market focus shifted from tariff wars to public finances.



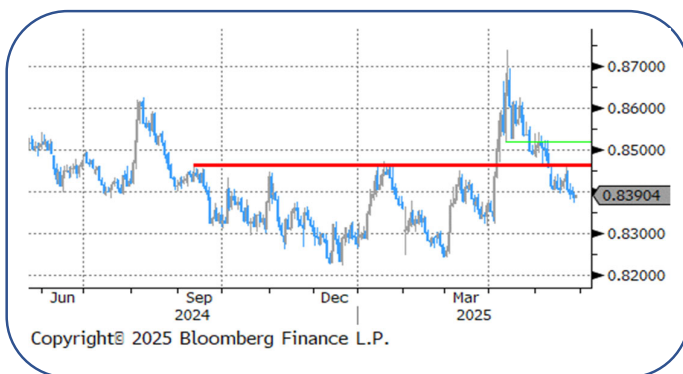
US 10y yield

The Fed's **priority stays on inflation until the labour market is visibly weakening**. It suggests steady policy rates at least until after Summer, supporting the bottom below front end yields. **Long term bond yields trend higher again as President Trump's big, beautiful, deficit-increasing bill moves its way through US Congress**.



EUR/USD

Trump's explosive policy mix (DOGE, tariffs) triggered uncertainty on future US economic growth with markets **also showing loss of confidence in the dollar**. **EUR/USD is in a buy-the-dip pattern** even as short-term interest rate differentials are in the euro's disadvantage.



EUR/GBP

Long end Gilt underperformance due to fiscal risks weighed on sterling earlier this year. Some relieve kicked in as president Trump seemed to be more forgiving towards the UK when it comes to tariffs. Recently, UK eco data weren't that bad and the Bank of England at the May meeting held to a path of gradual easing. This helped sterling to further regain some lost territory. Short-term momentum on sterling improved, but fiscal issues still loom further out.

Calendar & Table

Wednesday, 28 May		Consensus	Previous
US			
16:00	Richmond Fed Manufact. Index (May)	-9	-13
16:00	Richmond Fed Business Conditions (May)	--	-30
16:30	Dallas Fed Services Activity (May)	--	-19.4
20:00	FOMC Meeting Minutes		
EMU			
10:00	ECB 3 Year CPI Expectations (Apr)	2.50%	2.50%
10:00	ECB 1 Year CPI Expectations (Apr)	2.80%	2.90%
Germany			
9:55	Unemployment Change (000's) (May)	12.0k	4.0k
9:55	Unemployment Claims Rate SA (May)	6.30%	6.30%
France			
8:45	Consumer Spending MoM/YoY (Apr)	0.80%/--	-1.00%/-1.50%
8:45	PPI MoM/YoY (Apr)	--/--	-0.60%/-0.60%
Belgium			
28MAY	CPI MoM/YoY (May)	--/--	-0.83%/2.55%
New Zealand			
4:00	RBNZ Official Cash Rate	3.25%A	3.50%
Events			
2:00	Fed's Williams Speaks in Moderated Discussion in Tokyo		
05:35	Japan to Sell 40-Year Bonds		
10:00	Fed's Kashkari Participates in Moderated Q&A		
11:30	Germany to Sell EU1.5 Billion of 1% 2038 Bonds		
19:00	U.S. To Sell USD70 Bln 5-Year Notes		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	4.44	-0.07		US	3.98	-0.01		DOW	42343.65	740.58
DE	2.53	-0.03		DE	1.79	0.01		NASDAQ	19199.16	461.95
BE	3.06	-0.03		BE	1.93	0.00		NIKKEI	37824.07	99.96
UK	4.67	-0.01		UK	4.02	0.04		DAX	24226.49	198.84
JP	1.52	0.05		JP	0.75	0.01		DJ euro-50	5415.45	20.12
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	2.03	3.64	3.83	€STR	2.1720	0.0040		SOFR-1	4.3232	-0.0004
5y	2.20	3.66	3.88	Euribor-1	2.0630	-0.0330		SOFR-3	4.3285	0.0015
10y	2.51	3.89	4.16	Euribor-3	2.0210	-0.0180		SOFR-6	4.2821	-0.0024
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1.1328	-0.0059		EUR/JPY	163.54	0.89		CRB	294.75	-1.91
USD/JPY	144.33	1.48		EUR/GBP	0.8387	-0.0008		Gold	3328.30	-66.20
GBP/USD	1.3507	-0.0057		EUR/CHF	0.9375	0.0027		Brent	64.09	-0.65
AUD/USD	0.6443	-0.0043		EUR/SEK	10.9038	0.0703				
USD/CAD	1.381	0.0073		EUR/NOK	11.5094	0.0135				

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